

PORT OF SEATTLE
TERM LEASE

THIS TERM LEASE made as of July 25, 1989, by and between the PORT OF SEATTLE, a Washington municipal corporation, as Lessor, hereinafter referred to as "the Port," and CLIPPER NAVIGATION, INC., a Washington corporation, hereinafter referred to as "Lessee."

W I T N E S S E T H :

In consideration of their mutual promises, the parties hereto do hereby mutually agree as follows:

LEASED
PREMISES



1. The Port hereby leases to Lessee, and Lessee hereby hires and leases from the Port, the following described premises situated in King County, State of Washington:

That portion of Pier 69 consisting of approximately 19,196 square feet of enclosed and apron area and approximately 10,091 square feet of water area, the location and configuration of which are more fully depicted on Port drawing No. PM-69-1 attached hereto as Exhibit "A."

hereinafter called "the Premises."

TERM

2. (a) This lease shall be for a term of approximately 20 years, beginning when filed with the Federal Maritime Commission or May 1, 1989, whichever is later, and ending April 30, 2009.

(b) Lessee shall have two options to renew this Lease for two additional five (5) year terms. Exercise of said options must be by written notice to the Port given not less than 180 and not more than 270 days prior to the expiration of the then current lease term, and for such notice to be effective Lessee must be in full and satisfactory compliance with all provisions of this Lease at the time of giving any such notice.

RENT

3. Clipper shall pay monthly rental on the following basis, plus any taxes (including leasehold tax) and all utility costs.

(a) Period I (May 1, 1989 - October 31, 1990)

A reduced base rent shall be paid monthly in advance and be equivalent to an annual value of \$42,000.00 plus one-third (1/3) of the difference between \$42,000.00 and a full base rent calculated at \$4.00 per square foot per year for enclosed and apron space and \$0.60 per square foot per year for submerged land outboard of the apron (established using the State of Washington Department of Natural Resources [DNR] formula for water-dependent uses), with the areas calculated on the basis of Exhibit A. The rental is calculated on the basis of the enclosed and apron space, approximately 19,196 sq.ft., and the submerged land area, approximately 10,091 sq.ft., with the reduced annual base rent for this period equaling $\$42,000 + 1/3 \times ((\$4.00 \times 19,196 + \$0.60 \times 10,091) - \$42,000)$ or \$55,612.87 per year.

(b) Period II (November 1, 1990 - April 30, 1992)

A reduced base rent shall be paid monthly in advance and be equivalent to an annual value of \$42,000.00 plus two-thirds (2/3) of the difference between \$42,000.00 and a full base rent calculated at \$4.00 per square foot per year for enclosed and apron space and \$0.60 per square foot per year for submerged land outboard of the apron (established using the DNR formula for water-dependent uses). The rental is calculated on the basis of the enclosed and apron space, approximately 19,196 sq.ft., and the submerged land area, approximately 10,091 sq.ft., with the reduced annual base rent for this period equaling $\$42,000 + 2/3 \times ((\$4.00 \times 19,196 + \$0.60 \times 10,091) - \$42,000)$ or \$69,225.73 per year.

(c) Period III (May 1, 1992 - April 30, 2009)

Full base rent shall be paid monthly in advance and be calculated based on \$4.00 per square foot per year for enclosed and apron space and \$0.60 per square foot per year for submerged land outboard of the apron (established using the DNR formula for water-dependent uses), and adjusted as explained in paragraph 3(e) below.

(d) In addition to the base rental levels calculated under 3(a), 3(b) and 3(c) above, a per passenger charge shall be paid for every passenger embarking or disembarking at the premises according to the following schedule (adjusted as explained in paragraph 3(e) below):

<u>Annual Number of Passengers</u>	<u>Per Passenger Charge</u>
First 275,000 passengers	0.0¢
Passengers 275,001-375,000	26.0¢
Passengers 375,001-475,000	45.5¢
Passengers 475,001-575,000	65.0¢
Passengers 575,001-675,000	45.5¢
Passengers 675,001 and above	26.0¢

The annual period for counting passengers shall be from May 1 through April 30. Harbor tour (defined as a continuous non-stop return trip of 1.5 hours duration or less with only incidental sale of food and beverages) passengers shall be counted only when embarking. All other Clipper passengers, including those on dinner cruises as well as other voyages, shall be counted both when embarking and when disembarking.

(e) The base rent and passenger charges defined herein shall be adjusted upward at the beginning of Period III to reflect any increase in the National U.S. City Average Consumer Price Index for all urban consumers (CPI-U), compiled by the Bureau of Labor Statistics, U.S. Department of Labor, during the three years of Periods I and II. The base rent and per passenger charges during Period III and any option periods shall be adjusted upward every 30 months to reflect any increase over the preceding 30 months in the CPI-U. Said base rent and passenger charges also shall be subject to renegotiation on May 1, 1999 and at the beginning of option periods, in the event that the Port gives to Lessee written notice of the Port's election to renegotiate the rent applicable to the forthcoming rent period not less than 180 nor more than 270 days prior to an effective date of the commencement of the

rent period. In the absence of such notice, the rent adjustment made according to CPI-U as described herein shall apply. Promptly following such a notice of renegotiation, the parties shall negotiate in good faith for a renegotiated rent for the forthcoming rent period. Unless expressly provided to the contrary in another paragraph of this lease, such renegotiated rent shall be the fair market rental value of the premises (determined on a square footage or other appropriate basis customarily used for comparable properties) as compared with such rental value being obtained on other premises for similar use in the Greater Seattle area. The value of any improvements to the premises financed by Lessee at no cost to the Port shall be excluded in determining the fair market rental value of the premises. In the event that the parties cannot agree on the rent prior to sixty (60) days before the effective date for rent renegotiation, the rent shall be determined, according to the foregoing formula, by three arbitrators, each of whom shall be a member of either the Society of Industrial Realtors or of the Washington-British Columbia Chapter of the American Institute of Real Estate Appraisers and shall be experienced in the evaluation of the type of premises subject to this lease. Each party shall select and fully compensate one of these arbitrators, and the third arbitrator shall be selected by the other two and compensated in equal shares by the parties.

(f) Each monthly payment provided for in this paragraph shall be accompanied by a written report in the form attached hereto as Exhibit B enumerating Lessee's activities in passenger traffic during the second most recent calendar month. The Port will employ this report from Lessee in checking passenger fees payable by Lessee to Port pursuant to this lease and in preparing statistical summaries for the benefit of the marine industry and the public in King County, Washington, only, and shall not release or reveal the contents of Lessee's individual report to any other party, except as may be required by law. In the event the Port determines that it is required by law to release or reveal the contents of Lessee's report, it shall first give advance notice to Lessee.

(g) The Port shall have the right during the term of the Lease, or within ninety (90) days thereafter, to authorize one or more audits of Lessee's records pertaining to passenger counts of the Lessee. Such audit(s) shall be undertaken by a reputable firm of certified public accountants satisfactory to the Port. The cost of such audit(s) shall be borne by the Port, unless the result of each such audit reveals a discrepancy of more than five percent (5%) between the passenger counts as reported by Lessee in accordance with subparagraph 3(a)(2) above and the passenger counts as determined by audit(s) for the twelve (12) month period(s). In case of such discrepancy, the full cost of the audit(s) shall be borne by Lessee. Lessee, at its own expense, shall supply all records in a type, style, and form reasonably satisfactory to the Port.

BOND OR
OTHER SURETY

4. Lessee shall, upon execution of this lease and to secure its full performance of this lease, including the payment of all rentals and other amounts now or hereafter payable to the Port hereunder, obtain and deliver to the Port a cash deposit, a good and sufficient corporate surety company bond or other security (sometimes referred to as the "Security") in the initial amount of \$27,807.00. The amount

of security is subject to change with the rental changes pursuant to this lease and/or pursuant to changes in Port policy or State law. The form, provisions and nature of the Security, and the identity of the surety or other obligor thereunder, shall remain in place during the full term of this lease and shall be subject to the continued approval of the Port.

USE OF PREMISES

5. (a) Lessee shall use the premises for waterborne passenger transportation services in the State of Washington and between the State of Washington and the Coast of British Columbia, and also shall be permitted to offer harbor tours and dinner cruises, and sales of travel, sightseeing and hotel accommodation packages in connection with Lessee's marine transportation services and shall not use them for any other purpose without the written consent of the Port. Lessee shall also be permitted to use the Premises for sale of advertising material and Clipper logo merchandise to promote travel from the Premises, and for services such as vending machines provided for the convenience of Lessee's passengers. However, such permitted uses of the Premises shall not include food service or general merchandising. Lessee shall use the entire premises for the conduct of said business in a first-class manner continuously during the entire term of this lease, with the exception of temporary closures for such periods as may reasonably be necessary for repairs or redecorating or for reasons beyond Lessee's reasonable control. Lessee agrees that it will not disturb the Port or any other tenant of the Port by making or permitting any disturbance or any unusual noise, vibration or other condition on or in the premises. Lessee shall comply with any and all signs affixed by the Port in the premises as of the commencement of the lease term relative to maximum floor loadings.

(b) The Port may lease space for any use it chooses to place on Pier 69, including any other waterborne transportation services, except that space shall not be leased during the term of this lease for the following types of waterborne transportation services:

- (i) Services to and from Vancouver Island.
- (ii) Services to and from Vancouver, B.C., Canada, for a period of three years beginning May 1, 1989.
- (iii) Services to and from Vancouver, B.C. Canada after April 30, 1992, provided Lessee has established a regularly scheduled service (meaning departures on at least four days per week) before that date and provided that Lessee maintains that regularly scheduled service thereafter.
- (iv) Dinner cruise services for a period of two years beginning May 1, 1989.

The preceding limitations shall apply at Pier 69 only while Lessee is located there, and the limitations shall transfer to any other site occupied by Lessee under the provisions of paragraph 42.

UTILITIES

6. Lessee shall be liable for, and shall pay throughout the term of this lease, all charges for all utility services furnished to the premises, including, but not limited to, light, heat, electricity, security, drainage, telephone, ADT or equivalent, gas, water, sewerage, garbage disposal, and janitorial services. Lessee shall pay its proportionate share of such services provided to any shared or common use areas. Lessee shall not pay for utility and other service costs which are incurred at the Premises as a result of construction for the benefit of another tenant. In the event that the premises are part of a building or part of any larger premises to which any utility services are furnished on a consolidated or joint basis, Lessee agrees to pay to the Port Lessee's pro rata share of the cost of any such utility services. Lessee's pro rata share of any such services may be computed by the Port on any reasonable basis, and separate metering or other exact segregation of cost shall not be required. The water area shall not be considered in computing such pro-rations.

ACCEPTANCE
OF PREMISES

7. Lessee has examined the premises, accepts them in their present condition, and agrees to make any changes in the premises necessary to conform to federal, state and local law applicable to Lessee's use of the premises.

MAINTENANCE
AND REPAIR

8. (a) At the expiration or sooner termination of this lease, Lessee shall return the premises to the Port in the same condition in which received (or, if altered by Lessee with the Port's consent, then the premises shall be returned in such altered condition), reasonable wear and tear and damage by fire or other unavoidable casualty excepted. Lessee shall, at its own expense, at all times keep the premises and the adjoining roadways and sidewalks, neat, clean and in a safe and sanitary condition, free from infestation of pests and conditions which might result in harborage for, or infestation of, pests. (The word "pests," as used herein, shall include, without limitation, rodents, insects, and birds in numbers to the extent that a nuisance is created.) Lessee shall also keep the glass of all windows and doors on the premises clean and presentable, and shall maintain and keep the premises in a good state of repair, and shall commit no waste of any kind, and, without limiting the generalities thereof, shall replace all cracked or broken glass in the premises, and keep the electrical system and all drains clean and in a good state of repair, and shall protect the sprinkler system and all pipes and drains so that they will not freeze or become clogged. Fender piling maintenance shall also be Lessee's responsibility: Provided, that Lessee's said obligations to make all necessary repairs shall not extend to any repairs to the roof (structure or covering) or to the foundations of the building or structure (but expressly excluding from the term "foundations" all flooring and decking, whether structural or finish) or to the apron platform, excluding any dock surface improvements, of which the premises are a part, or to any repairs to any bearing columns or pilings or bearing walls or to the exterior walls of the building or structure that may be necessary to maintain the structural soundness of those columns or walls, except to the extent that any of the repairs described in this proviso may be required as a result of damage caused by negligence of Lessee or its agents, employees, invitees or licensees. Lessee shall remove all snow and ice from the sidewalk in front of the premises.

(b) The Port will undertake reasonable repairs to stop existing leakage of rainwater into the Premises area as promptly as Port and City procedures allow. Port shall be responsible for construction and maintenance of general exterior improvements to the building resulting from its redevelopment. Lessee shall be responsible for maintaining any special exterior improvements installed by Lessee to benefit the Premises.

ALTERATIONS AND
IMPROVEMENTS

9. Lessee shall make no alterations or improvements to or upon the premises or install any fixtures (other than trade fixtures which can be removed without injury to the premises) without first obtaining written approval from the Executive Director of the Port and subject to any and all conditions in such approval. All required permits (including but not limited to SEPA, Seattle MUP, MUP, COE and HPA) involving environmental review and/or conditions shall be co-signed by a representative of the Port. All Lessee improvements shall be subject to the Port's tenant guidelines. In the event any alterations or improvements shall be made or fixtures (other than trade fixtures which can be removed without injury to the premises) installed by Lessee, they shall at once become a part of the realty and become the property of the Port. Movable furniture and trade fixtures which are removable without injury to the premises shall be and remain the property of Lessee.

INSPECTION,
"FOR RENT"
SIGNS

10. The Port reserves the right to inspect the premises at any and all reasonable times throughout the term of this lease: Provided, that the Port shall not interfere unduly with Lessee's operations. The right of inspection reserved to the Port hereunder shall impose no obligation on the Port to make inspections to ascertain the condition of the premises, and shall impose no liability upon the Port for failure to make such inspections. The Port shall have the right to place and maintain "For Rent" signs in conspicuous places on the premises for thirty (30) days prior to the expiration or sooner termination of this lease.

OUTSIDE AREAS
AND ROOF

11. The use of the outside area of the walls (other than the front of the premises) and the roof of the building in which the premises are located is reserved to the Port, which shall have the right to utilize the same for any purpose, including the maintenance of signs.

POSSESSION

12. If the Port shall be unable for any reason to deliver possession of the premises, or any portion thereof, at the time of the commencement of the term of this lease, the Port shall not be liable for any damage caused thereby to Lessee, nor shall this lease thereby become void or voidable, nor shall the term specified herein be in any way extended, but in such event Lessee shall not be liable for any rent until such time as the Port can deliver possession. If Lessee shall, in the interim, take possession of any portion of the premises, Lessee shall pay as rent the full rent specified herein reduced pro rata for the portion of the premises not available for possession by Lessee. If the Port shall be unable to deliver possession of the premises at the commencement of the term of this lease, Lessee shall have the option to terminate this lease by at least thirty (30) days' written notice, unless the Port shall deliver possession of the premises prior to the effective date of termination specified in such notice. If Lessee shall, with the Port's consent, take possession of all or any part of the premises prior to the commencement of

the term of this lease, all of the terms and conditions of this lease shall immediately become applicable, with the exception that Lessee shall not be obligated to pay any rent for the period prior to the commencement of the term of this lease unless otherwise mutually agreed.

DAMAGE OR
DESTRUCTION

13. (a) If the Premises, or the buildings or structures of which the Premises are a part, are damaged by fire or other casualty and if damage is repairable within nine (9) weeks from the date of the occurrence (with the repair work and the preparations therefor to be done during regular working hours on regular work days), the Premises shall be repaired with due diligence by the Port, and in the meantime the monthly rent shall be abated in the same proportion that the untenable portion of the Premises bears to the whole thereof, for the period from the occurrence of the damage to the completion of the repairs.

(b) If the Premises are damaged to such an extent that the damage cannot be repaired and Lessee cannot resume its operations at the Premises within nine (9) weeks of the occurrence, Lessee shall have the option to terminate this Lease. The Port shall have the option to terminate this Lease if: (i) such damage cannot be repaired and Lessee cannot resume its operations at the Premises within four (4) months of the occurrence; or, (ii) if the Port has replacement value insurance and the cost of necessary repairs exceeds the insurance proceeds plus the amount of the deductible. A party must exercise its right of termination within thirty (30) days of the occurrence of damage, and such termination shall be effective immediately except as to any obligation in this Lease intended to survive termination. For a three (3) year period following termination by the Port, Lessee shall have a right to lease the Premises before any other party, exercisable within sixty (60) days of notice from the Port specifying all relevant matters relating to the reconstruction of the Premises, which notice the Port shall give as soon as possible. If Lessee exercises such right it shall return to the Premises when rebuilt on the same terms and conditions as contained in this Lease for the balance of the Lease term. As soon as possible following the occurrence, the Port shall commence and prosecute with due diligence any work necessary to repair the Premises unless this Lease is terminated. For the period from the occurrence of any damage to the Premises to the date of completion of the repairs to the Premises (or to the date of termination of the Lease, as the case may be), all rent shall be abated in the same proportion as the untenable or unusable portion of the Premises bears to the whole thereof.

INDEMNIFICATION
LIABILITY
INSURANCE

14. (a) The Port, its employees and agents shall not be liable for any injury (including death) to any persons or for damage to any property regardless of how such injury or damage be caused, sustained or alleged to have been sustained by Lessee or by others, including but not limited to all persons directly or indirectly employed by the Lessee, or any agents, contractors, or subcontractors of Lessee, as a result of any condition (including existing or future defects in the premises) or occurrence (including failure or interruption of utility service) whatsoever related in any way to the premises and the areas adjacent thereto, or related in any way to Lessee's use or occupancy of the premises and of areas adjacent thereto. Lessee agrees to defend and to hold and save the Port harmless from

all liability or expenses (including attorneys' fees, costs, and all expenses of litigation) in connection with any such items of actual or alleged injury or damage, except when such injury or damage is caused by the sole negligence of the Port.

(b) In addition, Lessee shall, at its own expense, maintain proper liability insurance with a reputable insurance company or companies satisfactory to the Port in the minimum limits of \$1,000,000 for bodily injuries and death, and for property damage (or equivalent satisfactory to the Port) and hereafter in such increased amounts as the Port may from time to time specify, to indemnify both the Port and Lessee against any such liability or expense.

(c) The Port shall be named as additional insured, and shall be furnished with appropriate evidence to establish (1) that Lessee's insurance obligations as herein provided have been met, and (2) that the insurance policy or policies as herein required are not subject to cancellation without at least ninety (90) days' advance written notice to the Port. Lessee shall furnish to the Port from time to time evidence of renewal of insurance as required.

(d) Lessee acknowledges that Pier 69 may be subject to damage or destruction in the event of a seismic disturbance. Lessee agrees that the Port shall not be liable for any damage to property of Lessee, its invitees or licensees or any of their officers, employees, contractors, or agents, nor shall the Port be liable for any injuries or deaths to any persons directly or indirectly employed by Lessee, its invitees, licensees, contractors, or agents, which arise from damage to or destruction of Pier 69 by seismic disturbance. Lessee shall defend, indemnify, and hold the Port harmless for all such damages, injuries, or deaths in accordance with paragraph 14(a) herein. The parties expressly agree that any damages, injuries, or deaths which are related to damage to or destruction of Pier 69 caused by seismic disturbance are not caused by any negligence of the Port.

WAIVER OF
SUBROGATION

15. The Port and Lessee hereby mutually release each other from liability and waive all right of recovery against each other for any loss from perils insured against under the respective fire insurance contracts, including any extended coverage endorsements thereto: Provided, that this paragraph 15 shall be inapplicable if it would have the effect, but only to the extent that it would have the effect, of invalidating any insurance coverage of Port or Lessee.

INCREASE IN
COST OF
INSURANCE

16. Lessee shall not use the premises in such a manner as to increase the existing rates of insurance applicable to the buildings or structures of which the premises are a part. If it nevertheless does so, then, at the option of the Port, the full amount of any resulting increase in premiums paid by the Port with respect to the buildings or structures of which the premises are a part, and to the extent allocable to the term of this lease, may be added to the amount of rent hereinabove specified and shall be paid by Lessee to the Port upon the monthly rental day next thereafter occurring.

TAXES

17. Lessee shall be liable for, and shall pay throughout the term of this lease, all license fees and all excise taxes payable for, or on account of, the activities conducted on the premises and all taxes on the property of Lessee on the premises and any taxes on the premises and/or on the leasehold interest created by this lease and/or any taxes levied in lieu of a tax on said leasehold interest and/or any taxes levied on, or measured by, the rentals payable hereunder, whether imposed on Lessee or on the Port. With respect to any such taxes payable by the Port which are on or measured by the rent payments hereunder, Lessee shall pay to the Port with each rent payment an amount equal to the tax on, or measured by, that particular payment. All other tax amounts for which the Port is or will be entitled to reimbursement from Lessee shall be payable by Lessee to the Port at least fifteen (15) days prior to the due dates of the respective tax amounts involved; provided, that Lessee shall be entitled to a minimum of ten (10) days' written notice of the amounts payable by it.

COMPLIANCE WITH
PORT REGULATIONS
AND WITH ALL
LAWS

18. Lessee agrees to comply with all applicable rules and regulations of the Port pertaining to the building or other realty of which the premises are a part now in existence or hereafter promulgated for the general safety and convenience of the Port, its various tenants, invitees, licensees and the general public. Lessee further agrees to comply with all applicable federal, state, and municipal laws, ordinances, and regulations, including without limitation those relating to environmental matters. Any fees for any inspection of the premises during or for the lease term by a federal, state or municipal officer and the fees for any so-called "Certificate of Occupancy" shall be paid by Lessee.

ASSIGNMENT OR
SUBLEASE

19. Lessee shall not assign or transfer this lease or any interest therein nor sublet the whole or any part of the premises, nor shall this lease or any interest thereunder be assignable or transferable by operation of law or by any process or proceeding of any court, or otherwise. If Lessee is a corporation, Lessee further agrees that if at any time during the term of this lease more than one-half (1/2) of the outstanding shares of any class of stock of Lessee corporation shall belong to any stockholders other than those who own more than one-half (1/2) of the outstanding shares of that class of stock at the time of the execution of this Lease or to members of their immediate families, such change in the ownership of the stock of Lessee shall be deemed an assignment of this lease within the meaning of this paragraph. For purposes of defining ownership of Lessee corporation, shares of Lessee's stock that are owned by Rainier Northwest Development Corp., a corporation wholly owned by Leonard Tall, shall be considered as if those shares were presently held by him individually. Any future transfer of Rainier Northwest Development's shares in Clipper Navigation either to Leonard Tall or to any member of his immediate family shall be deemed not to be a change of ownership prohibited by this paragraph. Provided, however, in the event of such change in stock ownership, the Port agrees that its consent shall not be unreasonably withheld or delayed.

DEFAULTS

20. Time is of the essence of this agreement. Lessee shall pay interest monthly at the annual rate of eighteen percent (18%), or the maximum rate permitted from

time to time by applicable law, whichever is less, on all sums owing to the Port under this lease, commencing thirty (30) days after the date each sum is due and payable. In the event of the failure of Lessee to pay the rents, interest, and any and all other charges provided for in this lease at the time and in the manner herein specified, or to keep any of the covenants or agreements herein set forth to be kept and performed, the Port may elect to terminate this lease and reenter and take possession of the premises with or without process of law: Provided, however, that Lessee shall be given fifteen (15) days' notice in writing stating the nature of the default in order to permit such default to be remedied by Lessee within said fifteen (15) day period. The Port shall grant in writing a reasonable (as determined by the Port) extension of time to Lessee to cure a non-monetary default if: (i) Lessee has diligently attempted to cure such default; (ii) Lessee notifies the Port in writing that such default cannot be reasonably cured within fifteen (15) days of receipt of notice of such default; and (iii) such notice is received by the Port within said fifteen (15) day period. In no event, however, shall such extension exceed a total of forty-five (45) extra days, although the Port, in its sole discretion, may consent in writing to a longer extension. Port consent to any extension for a non-monetary default shall not be effective against any other default, whether monetary or non-monetary. Payment by Lessee to the Port of interest on rents and/or on any other charges due and owing under this lease shall not cure or excuse Lessee's default in connection with such rents and/or other charges. Interest, default and all other remedies of the Port hereunder are cumulative and not alternative. If upon such reentry there remains any personal property of Lessee or of any other person upon the premises, the Port may, but without the obligation so to do, remove said personal property and hold it for the owners thereof or may place the same in a public garage or warehouse, all at the expense and risk of the owners thereof, and Lessee shall reimburse the Port for any expense incurred by the Port in connection with such removal and storage. The Port shall have the right to sell such stored property, without notice to Lessee, after it has been stored for a period of thirty (30) days or more, the proceeds of such sale to be applied first to the cost of such sale, second to the payment of the charges for storage, and third to the payment of any other amounts which may then be due from Lessee to the Port, and the balance, if any, shall be paid to Lessee. Notwithstanding any such reentry, the liability of Lessee for the full rents and interest provided for herein shall not be extinguished for the balance of the term of this lease, and Lessee shall make good to the Port any deficiency arising from a reletting of the premises at a lesser rent than that hereinbefore agreed upon. Lessee shall pay such deficiency each month as the amount thereof is ascertained by the Port.

TERMINATION

21. (a) In the event that the Port, at its sole discretion, shall require the use of the premises for a major capital improvement for public or private use in connection with the operation of the business of the Port, then this lease may be terminated by the Port by written notice delivered or mailed by the Port to Lessee not less than twelve (12) months before the termination date specified in the notice, provided that the Port shall comply with the provisions of paragraph 42 (Relocation) in the event the Port elects to relocate Lessee.

(b) Notwithstanding the foregoing, the Port shall not exercise the provisions of subparagraph 21(a) until after ten years from the date this lease commences.

(c) In the event Lessee purchases at least one additional vessel (the price of which is at least \$3 million in 1988 dollars) at least comparable in passenger-carrying capacity to the vessel presently in service from the premises, then the Port shall not exercise the provisions of subparagraph 21(a) until after twenty years from the date this lease commences. Provided, however, that the two comparable vessels used in Lessee's operations from the premises shall be owned by Lessee; and provided further that each such comparable vessel shall be used for a regularly scheduled service established by Lessee in accordance with paragraph 5 (Use of Premises) herein. If at any time after ten years from the commencement date of this lease Lessee fails to observe the conditions as described in this subparagraph 21(c), the Port may from that point forward be free to exercise its right to terminate this lease pursuant to subparagraph 21(a). For purposes of this paragraph, "regularly scheduled service" shall mean a minimum of four vessel departures per week from the premises, except when a vessel is undergoing maintenance or repair. For the purposes of this paragraph, "shall be owned by Lessee" shall be deemed to include (i) a vessel that is leased to Lessee for a term of ten (10) years or longer, pursuant to the terms of an irrevocable lease requiring Lessee to make lease payments for a period of not less than ten (10) years; (ii) a vessel owned by subsidiary of Lessee, with either lease payments or note payments that are an irrevocable obligation of Lessee; and (iii) a vessel owned by an affiliate corporation or partnership that is owned or controlled by Lessee's major shareholders, and is leased to Lessee under terms of an irrevocable lease for a term of not less than ten (10) years.

TERMINATION FOR
GOVERNMENT USE

22. In the event that any federal, state or local government (including the Port) or agency or instrumentality thereof shall, by condemnation or otherwise, take title, possession or the right to possession of the premises or any part thereof, the Port may, at its option, terminate this lease as of the date of such taking, and, if Lessee is not in default under any of the provisions of this lease on said date, any rent prepaid by Lessee shall, to the extent allocable to any period subsequent to the effective date of the termination, be promptly refunded to Lessee. The Lessee shall be entitled to share equitably in any award arising out of an expropriation of its interest in the Premises.

TERMINATION
BECAUSE OF
COURT DECREE

23. In the event that any court having jurisdiction in the matter shall render a decision which has become final and which will prevent the performance by the Port of any of its obligations under this lease, then either party hereto may terminate this lease by written notice, and all rights and obligations hereunder (with the exception of any undischarged rights and obligations that accrued prior to the effective date of termination) shall thereupon terminate. If Lessee is not in default under any of the provisions of this lease on the effective date of such termination, any rent prepaid by Lessee shall, to the extent allocable to any period subsequent to the effective date of the termination, be promptly refunded to Lessee.

SIGNS

24. No signs or other advertising matter, symbols, canopies or awnings shall be attached to or painted on or within the premises, including the windows and doors thereof, without the approval of the Port first had and obtained, such approval not to be unreasonably withheld. Subject to the approval of the Port, Lessee shall have the right to erect signs for the conduct of its business. At the termination or sooner expiration of this lease, all such signs, advertising matter, symbols, canopies or awnings attached to or painted by Lessee shall be removed by Lessee at its own expense, and Lessee shall repair any damage or injury to the premises and correct any unsightly condition caused by the maintenance and removal of said signs, etc.

INSOLVENCY

25. If Lessee shall file a petition in bankruptcy, or if Lessee shall be adjudged bankrupt or insolvent by any court, or if a receiver of the property of Lessee shall be appointed in any proceeding brought by or against Lessee, or if Lessee shall make an assignment for the benefit of creditors, or if any proceedings shall be commenced to foreclose any mortgage or any other lien on Lessee's interest in the premises or on any personal property kept or maintained on the premises by Lessee, the Port may, at its option, terminate this lease.

NONWAIVER

26. The acceptance of rent by the Port for any period or periods after a default by Lessee hereunder shall not be deemed a waiver of such default unless the Port shall so intend and shall so advise Lessee in writing. No waiver by the Port of any default hereunder by Lessee shall be construed to be or act as a waiver of any subsequent default by Lessee. After any default shall have been timely cured by Lessee, it shall not thereafter be used by the Port as a ground for the commencement of any action under the provisions of paragraph 20 hereof.

PROMOTION OF
PORT COMMERCE

27. Lessee agrees that throughout the term of this lease it will, insofar as practicable, promote and aid the movement of passengers and freight through facilities within the territorial limits of the Port. Lessee further agrees that all incoming shipments of commodities that it may be able to control or direct shall be made through facilities within the territorial limits of the Port if there will be no resulting cost or time disadvantage to Lessee.

SURRENDER OF
PREMISES -
ATTORNEYS' FEES

28. At the expiration or sooner termination of this lease, Lessee shall promptly surrender possession of the premises to the Port, and shall deliver to the Port all keys that it may have to any and all parts of the premises. In the event that either party shall be required to bring any action to enforce any of the provisions of this lease, or shall be required to defend any action brought by the other party with respect to this lease, and in the further event that one party shall entirely prevail in such action, the losing party shall, in addition to all other payments required therein, pay all of the prevailing party's actual costs in connection with such action, including such sums as the court or courts may adjudge reasonable as attorneys' fees in the trial court and in any appellate courts.

HOLDING OVER

29. If Lessee shall, with the consent of the Port, hold over after the expiration or sooner termination of the term of this lease, the resulting tenancy shall, unless otherwise mutually agreed, be for an indefinite period of time on a month-to-month basis. During such month-to-month

tenancy, Lessee shall pay to the Port the same rate of rent as set forth herein, unless a different rate shall be agreed upon, and shall be bound by all of the additional provisions of this lease insofar as they may be pertinent.

ADVANCES BY
PORT FOR LESSEE

30. If Lessee shall fail to do anything required to be done by it under the terms of this lease, except to pay rent, the Port may, at its sole option, do such act or thing on behalf of Lessee, and upon notification to Lessee of the cost thereof to the Port, Lessee shall promptly pay the Port the amount of that cost.

LIENS AND
ENCUMBRANCES

31. Lessee shall keep the premises free and clear of any liens and encumbrances arising or growing out of the use and occupancy of the said premises by Lessee. At the Port's request, Lessee shall furnish the Port with written proof of payment of any item which would or might constitute the basis for such a lien on the premises if not paid.

NOTICES

32. All notices and payments hereunder may be delivered or mailed. If mailed, they shall be sent to the following respective addresses:

To Lessor:

Port of Seattle
P. O. Box 1209
Seattle, Washington 98111

To Lessee:

Clipper Navigation, Inc.
2701 Alaskan Way, Pier 69
Seattle, Washington 98121

or to such other respective addresses as either party hereto may hereafter from time to time designate in writing. Notices and payments sent by certified or registered mail and subsequently received by the Port shall be deemed to have been given when and if properly mailed, and the postmark affixed by the United States Postal Service shall be conclusive evidence of the date of mailing.

JOINT AND
SEVERAL LIABILITY

33. Each and every party who signs this lease, other than in a representative capacity, as Lessee, shall be jointly and severally liable hereunder.

"LESSEE"
INCLUDES
LESSEES, ETC.

34. It is understood and agreed that for convenience the word "Lessee" and verbs and pronouns in the singular number and neuter gender are uniformly used throughout this lease, regardless of the number, gender or fact of incorporation of the party who is, or of the parties who are, the actual lessee or lessees under this agreement.

CAPTIONS

35. The captions in this lease are for convenience only and do not in any way limit or amplify the provisions of this lease.

INVALIDITY OF
PARTICULAR
PROVISIONS

36. If any term or provision of this lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this lease or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby and shall continue in full force and effect.

NONDISCRIMI-
NATION -
SERVICES

37. (a) Lessee agrees that it will not discriminate by segregation or otherwise against any person or persons because of race, sex, age, creed, color or national origin in furnishing, or by refusing to furnish, to such person, or persons, the use of the facility herein provided, including any and all services, privileges, accommodations, and activities provided thereby.

(b) It is agreed that Lessee's noncompliance with the provisions of this clause shall constitute a material breach of this lease. In the event of such noncompliance, the Port may take appropriate action to enforce compliance, may terminate this lease, or may pursue such other remedies as may be provided by law.

NONDISCRIMI-
NATION -
EMPLOYMENT

38. Lessee covenants and agrees that in all matters pertaining to the performance of this lease, Lessee shall at all times conduct its business in a manner which assures fair, equal and nondiscriminatory treatment of all persons without respect to race, sex, age, color, creed or national origin and, in particular:

(a) Lessee will maintain open hiring and employment practices and will welcome applications for employment in all positions from qualified individuals who are members of racial or other minorities, and

(b) Lessee will comply strictly with all requirements of applicable federal, state and local laws or regulations issued pursuant thereto relating to the establishment of nondiscriminatory requirements in hiring and employment practices and assuring the service of all patrons or customers without discrimination as to any person's race, sex, age, creed, color or national origin.

LABOR UNREST

39. Lessee agrees to join with the Port and use its best efforts in avoiding labor unrest, or in the event of a wildcat strike or other labor difficulty, to use its good offices in negotiating and bringing to a swift and satisfactory conclusion any kind of labor dispute that may affect the interests of the Port.

EASEMENTS

40. (a) The Parties recognize that the Port facilities are continuously being modified to improve the utilities, services and premises used and provided by the Port. The Port, or its agents, shall have the right to enter the premises of Lessee, and to cross over, construct, move, reconstruct, rearrange, alter, maintain, repair and operate the sewer, water, and drainage lines, and the electrical service, and all other services and facilities required by the Port for its own use. The Port is hereby granted a continuous easement or easements that the Port believes is necessary within the premises of Lessee, without any additional cost to the Port for the purposes expressed hereinabove. Provided, however, that the Port by virtue of such use, does not substantially deprive Lessee from its beneficial use or occupancy of its leased area for an unreasonable period of time, not to exceed thirty (30) working days, without consent of Lessee.

(b) In the event that the Port permanently deprives Lessee from such beneficial use or occupancy, then an equitable adjustment in rent, or in the cost required to modify its premises to allow the Lessee to operate its business, will be negotiated and paid by the Port to

Lessee. In the event that such entry by the Port is temporary in nature, then the Port shall reimburse Lessee for the cost required to modify its premises for the temporary period that Lessee is inconvenienced by such Port entry. The Port will not be responsible to Lessee for any reduced efficiency or loss of business occasioned by such entry.

ENVIRONMENTAL
STANDARDS

41. (a) "Hazardous Substances" shall mean any item defined as a hazardous waste, toxic substance, or other pollutant, by any local, state, or federal law or regulation. Lessee shall not allow the presence in or about the Premises of any Hazardous Substance in any manner that could be a detriment to the Premises or in violation of any local, state or federal law or regulation. The Lessee shall take all reasonable precautions and use best management practices to prevent the release into adjacent surface water, soils water and air of any Hazardous Substance from its leased premises, operations, and/or any vessel moored along its leased apron. Lessee shall provide the Port with Lessee's USEPA Waste Generator Number, copies of all Materials Safety Data Sheets (MSDS), and copies of all Generator Annual Dangerous Waste Reports. Lessee shall promptly notify the Port of any correspondence Lessee receives from any governmental office in connection with Lessee's handling of Hazardous Substance and shall provide the Port with copies of all such correspondence. If Lessee is in violation of any governmental law or regulation concerning handling or storing hazardous wastes, it shall promptly take such action as is necessary to mitigate and correct the violation. If Lessee does not act in a prudent and prompt manner, the Port reserves the right, but not the obligation, to come onto the Premises, to act in place of the Lessee (Lessee hereby appoints the Port its agent for such purposes), and to take such action as the Port deems necessary to ensure compliance or to mitigate the violation. If the Port has a reasonable belief that Lessee is in violation of any such law or regulation, or that Lessee's actions or inactions present a threat of violation or a threat of damage to the Premises, the Port reserves the right to enter the Premises and take such action as the Port deems necessary to mitigate, abate, or correct the threat thereof. All costs and expenses incurred by the Port in connection with any such actions shall be payable by the Lessee and shall become immediately due and payable as additional rent upon presentation of an invoice therefore.

(b) Lessee agrees to allow the Port personnel and its consultants access to the Premises for an annual inspection to verify compliance with the provisions of this Lease.

(c) Lessee shall not allow any Hazardous Substances to migrate off of the Premises, and warrants that its actions will not give rise to any damage to third parties.

(d) Prior to vacation of the Premises, Lessee shall remove and demonstrate to the Port's satisfaction that Lessee has not left any Hazardous Substances on the Premises. This demonstration shall be a condition precedent to the Port releasing any security it may be holding. This remedy is not exclusive and the Port may seek additional damages from Lessee to the extent the Port incurs any cost in cleaning up the Premises from any Hazardous Substances left by Lessee.

RELOCATION

42. (a) The Port may, at the Port's option, choose to relocate Lessee either to another portion of Pier 69, or, in order to accommodate a publicly supported use such as a metropolitan ferry service or other water-dependent public transportation service requiring the Pier 69 space occupied by Lessee, to another site on the central waterfront north of Pier 48 and south of Myrtle Edwards park. Any new location shall have enclosed and moorage space functionally equivalent to the Premises for the purposes of handling passengers and vessels. The Port shall provide Lessee at least 12 months notice prior to the date of relocation. Any relocation shall be done in a manner not to interfere unduly with the conduct of Lessee's business.

(b) Reasonable moving costs shall be reimbursed to Lessee by the Port for any relocation to another site on the central waterfront outside Pier 69. During the first two years of the lease term, Lessee shall at its expense make only the minimum leasehold improvements necessary for the conduct of its business in order to minimize the cost of a relocation made during that time. In the event of relocation, the Port shall either replace those leasehold improvements made by Lessee or pay Lessee the unamortized value of such leasehold improvements, provided plans for all such improvements were given prior approval and final costs verified by the Port. For amortization schedule calculations: moorage-related improvements shall be deemed to have a 10-year life; exterior or interior building improvements shall be deemed to have a five-year life; and the interest rate shall equal the Port's cost-of-capital (at the time improvements were completed) plus two percent. In the event of a relocation to another central waterfront site, not on Pier 69, Lessee may apply to the Port for additional reimbursement for expected losses in business resulting from operating at the new location over a 10-year period following relocation. Such reimbursement shall be based only on existing Lessee lines of business and reflect only the expected loss in profits (after both depreciation and taxes) from use of the assets under Lessee control at the time relocation notice is given by the Port. Should Lessee and the Port not come to mutual agreement on the amount of that reimbursement, the amount shall be decided through the same arbitration process as given for rental arbitration in paragraph 3(e).

FEDERAL
MARITIME
COMMISSION
REGULATIONS

43. (a) This instrument shall be submitted to the Federal Maritime Commission for determination as to whether it may be subject to the provisions of Section 15 of the Shipping Act, 1916, as amended, and Section 5 of the Shipping Act of 1984. In the event that the Commission or its staff shall determine approval of this instrument is required under said Section 15 or Section 5, this instrument shall not be effective until both of the parties hereto have been informed that such approval has been given. No future amendment, modification, extension or renewal of/or to this instrument shall become effective until such amendment, modification, extension, or renewal instrument (regardless of the form of such instrument) has been submitted to and reviewed by the Federal Maritime Commission and its staff in the manner outlined above. Further, the Federal Maritime Commission shall be promptly advised in the event this instrument is terminated, either by mutual consent between the parties, or in accordance with any of the provisions therein.

(b) Pending approval by the Federal Maritime Commission, Lessee will be assessed rent pursuant to the Port tariffs. Once Federal Maritime Commission approval is received, Lessee will be obligated to pay the rent thereafter pursuant to the lease. If it is found by the FMC that this lease is not subject to Federal Maritime Commission approval, then and in that event, the rent will be assessed retroactively from the first date of occupancy at the rate stated herein, and Lessee will be given credit for the amount of rent he has paid heretofore under the tariff rate.

ENTIRE
AGREEMENT -
AMENDMENTS

44. This printed lease together with any attached Addendum incorporated by the preceding sentence and any and all exhibits expressly incorporated herein by reference and attached hereto shall constitute the whole agreement between the parties. There are no terms, obligations, covenants or conditions other than those contained herein. No modification or amendment of this agreement shall be valid or effective unless evidenced by an agreement in writing signed by both parties.

IN WITNESS WHEREOF the parties hereto have signed this lease as of the day and year first above written.

ATTEST:

CLIPPER NAVIGATION, INC.

By Kimberly A. Nelson
Secretary
KIMBERLY NELSON
(CORPORATE SEAL)

By Meridith Tall
President
LESSEE
MERIDITH TALL

ATTEST:

PORT OF SEATTLE

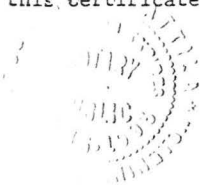
By Jim Wright
Secretary
JIM WRIGHT
(CORPORATE SEAL)

By Patricia Davis
President
LESSOR
PATRICIA DAVIS

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this 25th day of July, 1989, before me, the undersigned notary public in and for the State of Washington, duly commissioned and sworn, personally appeared PATRICIA DAVIS and JIM WRIGHT, to me known to be the President and Secretary, respectively, of the Port Commission of the PORT OF SEATTLE, a municipal corporation, the corporation that executed the foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that they were duly authorized to execute the same and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal hereto the day and year in this Certificate first above written.



Patricia A. Davis
Notary Public in and for the State of
Washington, residing at Princeton Island
My appointment expires May 15, 1993

(ACKNOWLEDGMENT FOR CORPORATE LESSEE) CHARGE

STATE OF Washington)
) ss.
COUNTY OF King)

On this 6th day of July, 1989, before me personally appeared Mauidith Tall and Kimberly Nelson, to me known to be the President and the Secretary, respectively, of the corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument and that the seal affixed is the corporate seal of said corporation.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year first above written.



S. E. Edsall
Notary Public in and for the State of
Washington, residing at Woodbury 112
My appointment expires 8/10/91

LINE



REVISIONS

APP'D	NO.	DATE

SEATTLE

NE FACILITIES

PIER 69

R NAVIGATION INC

2701 ALASKAN WAY 98111

WORK ORDER NO.

D-4017

CONSULTANTS NO.

PORT OF SEATTLE NO.

PM-69-1

EXHIBIT-A

EXHIBIT B

Port of Seattle
Pier 69

Data for _____, 19__

Clipper Navigation, Inc.

1. Waterborne transportation service passengers embarking plus debarking:

<u>Service</u> <u>Origin/Destination:</u>	<u>Passengers</u> <u>Embarking/DebarKing/Total:</u>	<u>No. of Vessel</u> <u>Sailings:</u>
_____	_____ / _____ / _____	_____
_____	_____ / _____ / _____	_____
_____	_____ / _____ / _____	_____
_____	_____ / _____ / _____	_____
Totals:	_____ / _____ / _____	_____

2. Total dinner cruise passengers embarking plus debarking:

<u>Passengers</u> <u>Embarking/DebarKing/Total:</u>	<u>No. of Vessel</u> <u>Sailings:</u>
_____ / _____ / _____	_____

3. Total harbor tour passenger count, embarking only:

<u>Passengers</u> <u>Embarking:</u>	<u>No. of Vessel</u> <u>Sailings:</u>
_____	_____

Data provided by:

CLIPPER NAVIGATION, INC.

By _____
Title _____
Date _____
Phone no. _____

1018R